

**REPORT OF THE AUDIT OF THE  
PULASKI COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2011**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE PULASKI COUNTY FISCAL COURT**

**June 30, 2011**

The Auditor of Public Accounts has completed the audit of the Pulaski County Fiscal Court for fiscal year ended June 30, 2011. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Pulaski County, Kentucky.

The financial statements of the aggregate discretely presented component units have been prepared under accounting principles generally accepted in the United States of America, which is inconsistent with the basis of accounting Pulaski County, Kentucky, uses to prepare its financial statements. As a result, we have issued a qualified opinion on the aggregate discretely presented component units.

#### **Financial Condition:**

The fiscal court had total net assets of \$64,619,759 as of June 30, 2011. The fiscal court had unrestricted net assets of \$1,459,748 in its governmental activities as of June 30, 2011, with total net assets of \$64,538,597. In its business-type activities, total net cash and cash equivalents were \$27,994 with total net assets of \$81,162. The fiscal court's discretely presented component units had net assets of \$29,697,764 as of June 30, 2011. The discretely presented component units had net cash and cash equivalents of \$684,928. The fiscal court had total debt principal as of June 30, 2011 of \$24,553,433 with \$1,454,089 due within the next year. The discretely presented component units had total debt principal as of June 30, 2011 of \$1,261,240 with \$206,558 due within the next year.

#### **Report Comments:**

- 2011-01 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And Bank Reconciliations
- 2011-02 Jail Commissary Internal Controls Are Not Adequately Segregated
- 2011-03 The Somerset-Pulaski County Airport Board Lacks Adequate Segregation Of Duties
- 2011-04 The Somerset-Pulaski County Airport Board Should Properly Account For Daily Deposits
- 2011-05 The Fiscal Court Participated In A Related Party Transaction
- 2011-06 The Somerset-Pulaski County Airport Board Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

#### **Deposits:**

The Fiscal Court's deposits as of August 31, 2010 were exposed to custodial risk as follows:

- Uncollateralized and Uninsured - \$195,331

The discretely presented component units' deposits were uninsured and uncollateralized as follows:

- Somerset-Pulaski County Development Foundation, Inc. – uninsured and uncollateralized - \$79,747 - as of June 30, 2011
- Somerset-Pulaski County Airport Board – uninsured and uncollateralized - \$85,312 - as of June 2, 2011



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Barty Bullock, Pulaski County Judge/Executive  
Members of the Pulaski County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pulaski County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Pulaski County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Somerset-Pulaski County Development Foundation, Inc., a discretely presented component unit, which represents 50% of the assets and revenues of the aggregate discretely presented component opinion unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Somerset-Pulaski County Development Foundation, Inc. is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Pulaski County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements of the discretely presented component units of the Pulaski County Fiscal Court, are presented in accordance with the accrual basis of accounting and therefore, include certain accruals required by accounting principles generally accepted in the United States of America that are not presented in accordance with the modified cash basis. The amounts by which these accruals affect the financial statements are not reasonably determinable.



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In our opinion, based upon our report and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had the discretely presented component units' financial statements been prepared using the same basis of accounting as Pulaski County, Kentucky, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units of Pulaski County, Kentucky as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pulaski County, Kentucky, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statement 54 as it relates to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pulaski County, Kentucky's basic financial statements as a whole. The combining fund financial statements, financial statements of the component units, and budgetary comparison information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining fund financial statements and the financial statements of the component units have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and financial statements of the component units fairly stated in all material respects in relation to the basic financial statements as a whole. The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

In accordance with Government Auditing Standards, we have also issued our report dated June 7, 2012 on our consideration of Pulaski County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



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Members of the Pulaski County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2011-01 The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And Bank Reconciliations
- 2011-02 Jail Commissary Internal Controls Are Not Adequately Segregated
- 2011-03 The Somerset-Pulaski County Airport Board Lacks Adequate Segregation Of Duties
- 2011-04 The Somerset-Pulaski County Airport Board Should Properly Account For Daily Deposits
- 2011-05 The Fiscal Court Participated In A Related Party Transaction
- 2011-06 The Somerset-Pulaski County Airport Board Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen  
Auditor of Public Accounts

June 7, 2012

PULASKI COUNTY OFFICIALS

For The Year Ended June 30, 2011

**Fiscal Court Members:**

Barty Bullcok	County Judge/Executive
Mike Strunk	Magistrate
Glenn Maxey	Magistrate
Mike Wilson	Magistrate
Tommy Barnett	Magistrate
Jason Turpen	Magistrate

**Other Elected Officials:**

Martin L. Hatfield	County Attorney
Mike Harris	Jailer
Ralph Troxtell	County Clerk
George Flynn	Circuit Court Clerk
Todd Wood	Sheriff
T.W. Todd	Property Valuation Administrator
Richard New	Coroner

**Appointed Personnel:**

Arlene Young	County Treasurer
Clara McQueen	Occupational Tax Collector
Marissa VanHook	Finance Officer

**PULASKI COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2011**



**PULASKI COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2011**

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Totals	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 1,779,966	\$ 27,994	\$ 1,807,960	\$ 684,928
Notes Receivable				523,500
Accounts Receivable				76,886
Inventory - Fuel				25,075
Inventory				1,543
Total Current Assets	1,779,966	27,994	1,807,960	1,311,932
Noncurrent Assets:				
Capital Assets - Net of Accumulated Depreciation				
Construction In Progress	12,988		12,988	21,478
Land and Land Improvements	3,942,407		3,942,407	5,123,977
Buildings	27,652,527		27,652,527	12,826,418
Other Equipment	1,766,330		1,766,330	471,309
Vehicles and Equipment	9,420,005	53,168	9,473,173	126,191
Infrastructure	44,517,807		44,517,807	7,497,670
Property Held For Sale or Lease				3,733,606
Total Noncurrent Assets	87,312,064	53,168	87,365,232	29,800,649
Total Assets	89,092,030	81,162	89,173,192	31,112,581
LIABILITIES				
Current Liabilities:				
Bonds Payable	885,000		885,000	
Financing Obligations Payable	569,089		569,089	17,912
Note Payable				188,646
Accrued Expenses				125,069
Sales Tax Payable				2,048
Payroll Liabilities				1,865
Accrued Payroll				3,400
Deferred Revenue				21,195
Total Current Liabilities	1,454,089		1,454,089	360,135
Noncurrent Liabilities:				
Bonds Payable	21,965,000		21,965,000	
Financing Obligations Payable	1,134,344		1,134,344	33,787
Note Payable				1,020,895
Total Noncurrent Liabilities	23,099,344		23,099,344	1,054,682
Total Liabilities	24,553,433		24,553,433	1,414,817

The accompanying notes are an integral part of the financial statements.

**PULASKI COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**  
**June 30, 2011**  
(Continued)

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>	
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	\$ 62,758,631	\$ 53,168	\$ 62,811,799	\$ 15,016,969
Restricted For:				
Capital Projects	108,420		108,420	45,562
Debt Service	211,798		211,798	
Unrestricted	1,459,748	27,994	1,487,742	14,635,233
Total Net Assets	<u>\$ 64,538,597</u>	<u>\$ 81,162</u>	<u>\$ 64,619,759</u>	<u>\$ 29,697,764</u>

The accompanying notes are an integral part of the financial statements.

**PULASKI COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2011**

**PULASKI COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,758,046	\$ 204,731	\$ 2,460,049	\$
Protection to Persons and Property	6,542,900	1,476,608	831,034	
General Health and Sanitation	722,443	61,396	18,509	744,443
Social Services	72,311		274,127	
Recreation and Culture	341,830	33,639		
Roads	3,418,167		2,517,456	491,708
Airports	167,322			
Debt Service	1,480,704			
Capital Projects	7,357,710			
Total Governmental Activities	23,861,433	1,776,374	6,101,175	1,236,151
Business-type Activities:				
Jail Canteen	168,179	162,947		
Total Business-type Activities	168,179	162,947		
Total Primary Government	\$ 24,029,612	\$ 1,939,321	\$ 6,101,175	\$ 1,236,151
Component Units:				
Somerset-Pulaski County Development Foundation	\$ 490,057	\$ 280	\$	\$ 833,453
Somerset-Pulaski County Airport Board	939,160	468,320	163,762	73,810
Total Component Units	\$ 1,429,217	\$ 468,600	\$ 163,762	\$ 907,263

**General Revenues:**

Taxes:

Real Property Taxes  
Personal Property Taxes  
Motor Vehicle Taxes  
Occupational Taxes  
Fire Insurance Premium Taxes  
Other Taxes

Excess Fees

Royalties

Reimbursements

Miscellaneous Revenues

Rentals

Interest

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.



**PULASKI COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2011**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>			
<b>Primary Government</b>			
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>	<b>Component Units</b>
\$ (1,093,266)	\$	\$ (1,093,266)	\$
(4,235,258)		(4,235,258)	
101,905		101,905	
201,816		201,816	
(308,191)		(308,191)	
(409,003)		(409,003)	
(167,322)		(167,322)	
(1,480,704)		(1,480,704)	
(7,357,710)		(7,357,710)	
(14,747,733)		(14,747,733)	
	(5,232)	(5,232)	
	(5,232)	(5,232)	
(14,747,733)	(5,232)	(14,752,965)	
			343,676
			(233,268)
			\$ 110,408
1,499,111		1,499,111	
132,334		132,334	
279,008		279,008	
8,366,096		8,366,096	
2,755,206		2,755,206	
582,744		582,744	
712,339		712,339	
119,180		119,180	
360,238		360,238	
636,213		636,213	26,035
			544,694
58,640	39	58,679	7,212
	(50,000)	(50,000)	
15,501,109	(49,961)	15,451,148	577,941
753,376	(55,193)	698,183	688,349
63,785,221	136,355	63,921,576	29,009,415
\$ 64,538,597	\$ 81,162	\$ 64,619,759	\$ 29,697,764

The accompanying notes are an integral part of the financial statements.

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**PULASKI COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2011**

**PULASKI COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2011**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Public Properties Corporation Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 1,109,706	\$ 194,826	\$ 39,726	\$ 211,798
Total Assets	<u>1,109,706</u>	<u>194,826</u>	<u>39,726</u>	<u>211,798</u>
<b>FUND BALANCES</b>				
<b>Restricted For:</b>				
Debt Service				211,798
Capital Projects				
<b>Assigned To:</b>				
General Government				
Protection to Persons and Property			39,726	
General Health and Sanitation				
Social Services				
Recreation and Culture				
Roads		194,826		
<b>Unassigned</b>	<u>1,109,706</u>			
Total Fund Balances	<u>\$ 1,109,706</u>	<u>\$ 194,826</u>	<u>\$ 39,726</u>	<u>\$ 211,798</u>

The accompanying notes are an integral part of the financial statements.

**PULASKI COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2011**  
**(Continued)**

<b>Fire Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$ 54,532	\$ 169,378	\$ 1,779,966
54,532	169,378	1,779,966
		211,798
	108,420	108,420
	948	948
54,532	3,422	97,680
	526	526
	6,212	6,212
	16,455	16,455
	33,395	228,221
		1,109,706
\$ 54,532	\$ 169,378	\$ 1,779,966

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 1,779,966
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	237,979,567
Accumulated Depreciation	(150,667,503)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(1,703,433)
Bonds	(22,850,000)
Net Assets Of Governmental Activities	\$ 64,538,597

The accompanying notes are an integral part of the financial statements.

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**PULASKI COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

**PULASKI COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Public Properties Corporation Fund</b>
<b>REVENUES</b>				
Taxes	\$ 8,558,242	\$ 1,607,024	\$ 460,136	\$
In Lieu Tax Payments	359,111	78,326		
Excess Fees	712,339			
Licenses and Permits	197,416			
Intergovernmental	854,682	2,857,674	1,830,446	1,945,508
Charges for Services	96,945		90,281	
Miscellaneous	340,689	184,146	221,697	
Interest	25,069	14,264	3,341	8,599
Total Revenues	<u>11,144,493</u>	<u>4,741,434</u>	<u>2,605,901</u>	<u>1,954,107</u>
<b>EXPENDITURES</b>				
General Government	4,511,948			
Protection to Persons and Property	2,066,480		2,269,784	
General Health and Sanitation	672,863			
Social Services	3,515			
Recreation and Culture	192,131			
Roads		3,699,848		
Airports	167,322			
Debt Service	325,753	991,851		1,943,008
Capital Projects	1,257,991	235,875		4,495,714
Administration	<u>3,455,444</u>	<u>39,163</u>	<u>724,150</u>	<u>3,912</u>
Total Expenditures	<u>12,653,447</u>	<u>4,966,737</u>	<u>2,993,934</u>	<u>6,442,634</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,508,954)</u>	<u>(225,303)</u>	<u>(388,033)</u>	<u>(4,488,527)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers From Other Funds	1,091,256	100,000	172,021	
Transfers To Other Funds	<u>(331,021)</u>	<u>(100,000)</u>	<u>(100,000)</u>	<u>(102,592)</u>
Total Other Financing Sources (Uses)	<u>760,235</u>	<u></u>	<u>72,021</u>	<u>(102,592)</u>
Net Change in Fund Balances	(748,719)	(225,303)	(316,012)	(4,591,119)
Fund Balances - Beginning (Restated)	1,858,425	420,129	355,738	4,802,917
Fund Balances - Ending	<u>\$ 1,109,706</u>	<u>\$ 194,826</u>	<u>\$ 39,726</u>	<u>\$ 211,798</u>

The accompanying notes are an integral part of the financial statements.



**PULASKI COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2011**  
**(Continued)**

<b>Fire Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$ 2,755,206	\$	\$ 13,380,608
		437,437
		712,339
		197,416
18,262	1,264,751	8,771,323
49,077		236,303
22,631		769,163
7,367	1,580	60,220
<u>2,852,543</u>	<u>1,266,331</u>	<u>24,564,809</u>
	9,000	4,520,948
1,392,658	32,500	5,761,422
	5,000	677,863
	68,796	72,311
	159,640	351,771
	197,729	3,897,577
		167,322
57,065		3,317,677
695,089	673,041	7,357,710
68,030		4,290,699
<u>2,212,842</u>	<u>1,145,706</u>	<u>30,415,300</u>
<u>639,701</u>	<u>120,625</u>	<u>(5,850,491)</u>
	109,000	1,472,277
<u>(688,000)</u>	<u>(100,664)</u>	<u>(1,422,277)</u>
<u>(688,000)</u>	<u>8,336</u>	<u>50,000</u>
(48,299)	128,961	(5,800,491)
102,831	40,417	7,580,457
<u>\$ 54,532</u>	<u>\$ 169,378</u>	<u>\$ 1,779,966</u>

The accompanying notes are an integral part of the financial statements.

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**PULASKI COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**



**PULASKI COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$ (5,800,491)
--	----------------

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	7,177,064
Depreciation Expense	(2,433,627)
Assets disposed of, net book value	(26,543)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while repayment of principal on long-term debt consumes the current financial resources of Governmental Funds. These transactions, however, have no effect on net assets.

Financing Obligations Principal Payments	981,973
Bond Principal Payments	855,000

Change in Net Assets of Governmental Activities	<u><u>\$ 753,376</u></u>
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**PULASKI COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2011**





**PULASKI COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2011**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 27,994
Total Current Assets	<u>27,994</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	141,292
Less Accumulated Depreciation	<u>(88,124)</u>
Total Noncurrent Assets	<u>53,168</u>
Total Assets	<u>81,162</u>
<b>Net Assets</b>	
Invested in Capital Assets,	
Net of Related Debt	53,168
Unrestricted	<u>27,994</u>
Total Net Assets	<u><u>\$ 81,162</u></u>

The accompanying notes are an integral part of the financial statements.

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**PULASKI COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**



**PULASKI COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 162,947
Total Operating Revenues	<u>162,947</u>
<b>Operating Expenses</b>	
Cost of Sales	87,410
Educational and Recreational	61,547
Personnel Costs	11,196
Sales Tax	2,396
Office Supplies	81
Depreciation	<u>5,549</u>
Total Operating Expenses	<u>168,179</u>
Operating Income (Loss)	<u>(5,232)</u>
<b>Nonoperating Revenues (Expenses)</b>	
Interest Income	39
Transfers Out	<u>(50,000)</u>
Total Nonoperating Revenues (Expenses)	<u>(49,961)</u>
Change In Net Assets	(55,193)
Total Net Assets - Beginning (Restated)	<u>136,355</u>
Total Net Assets - Ending	<u><u>\$ 81,162</u></u>

The accompanying notes are an integral part of the financial statements.

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**PULASKI COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**





**PULASKI COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2011**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Cash Flows From Operating Activities</b>	
Cash Receipts From Customers for Sales	\$ 162,947
Cash Payments to Vendors	(149,038)
Cash Payments to Employees	(11,196)
Cash Payments to Others	(2,396)
Net Cash Provided (Used) By Operating Activities	<u>317</u>
<b>Cash Flows From Noncapital Financing Activities</b>	
Transfers Out	(50,000)
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(50,000)</u>
<b>Cash Flows From Investing Activities</b>	
Interest Earned	<u>39</u>
Net Cash Provided (Used) By Investing Activities	<u>39</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(49,644)
Cash and Cash Equivalents - July 1 (Restated)	<u>77,638</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 27,994</u></u>

The accompanying notes are an integral part of the financial statements.

**PULASKI COUNTY**  
**STATEMENT OF CASH FLOWS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2011**  
**(Continued)**

	<b>Business-Type Activities - Enterprise Fund</b>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	<b>Jail Canteen Fund</b>
Operating Income (Loss)	\$ (5,232)
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	<u>5,549</u>
Net Cash Provided By Operating Activities	<u><u>\$ 317</u></u>

The accompanying notes are an integral part of the financial statements.

**PULASKI COUNTY**  
**STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2011**



**PULASKI COUNTY**  
**STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2011**

	<u><b>Agency Fund</b></u> <u><b>Inmate</b></u> <u><b>Account</b></u>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 3,698
Total Assets	<u>3,698</u>
<b>Liabilities</b>	
Amounts Held In Custody For Others	<u>3,698</u>
Total Liabilities	<u>3,698</u>
<b>Net Assets</b>	
Total Net Assets	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

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**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements. However, the financial statements of the discretely presented component units are prepared on the accrual basis, in accordance with accounting principles generally accepted in the United States of America. Under this basis of accounting all assets and liabilities are recognized on the Statement of Net Assets. Revenues are recorded when earned and liabilities are recorded when incurred, regardless of timing of cash. Therefore, deferred revenues are only reported for receipts of prepayments or revenues collected in advance. The financial information of the discretely presented component units are included in the government-wide Statement of Net Assets and Statement of Activities.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Pulaski County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

**Blended Component Units**

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Pulaski County Public Properties Corporation**

The fiscal court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Therefore, management must include the Public Properties Corporation as a component unit, and the financial activity is blended with that of the fiscal court.

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Discretely Presented Component Units

The component units' columns in the combined financial statements include the data of the following organizations. They are reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Units" to emphasize these organizations' separateness from the fiscal court's primary government.

Somerset-Pulaski County Development Foundation, Inc.

The Pulaski County Fiscal Court (Fiscal Court) does not appoint a voting majority of the Somerset-Pulaski County Development Foundation's, Inc. (Foundation) governing board. However, the Foundation is governed by a board of directors which includes the County Judge/Executive and is a legally separate organization set up exclusively for the development and enhancement of the industrial and commercial welfare of Somerset, Pulaski County, and surrounding areas. The Pulaski County Fiscal Court's occupational tax ordinance states that a percentage of the collections are to be deposited into the County's Industrial Development Fund. In this fund the Fiscal Court retains the tax revenues collected, approves and pays the expenditures of the Foundation including salaries and debt. The debt outstanding is reported in the financial statements and related notes of the Foundation. The Fiscal Court also purchases land and constructs buildings for industrial development by obtaining grants or using the occupational tax revenues then deeds over the land and buildings to the Foundation when completed. These capital assets are reported in the financial statements and related notes of the Foundation. Exclusion of this entity as a component unit of Pulaski County would cause the county's financial statements to be misleading or incomplete. The financial information for the Foundation is presented discretely within Pulaski County's financial statements.

Audited financial statements for the Somerset-Pulaski County Development Foundation, Inc., a discretely presented component unit, may be requested by contacting the Somerset Pulaski County Development Foundation, Inc., P.O. Box 450, Somerset, Kentucky, 42502.

Somerset-Pulaski County Airport Board

The Pulaski County Fiscal Court (Fiscal Court) established the Somerset-Pulaski County Airport Board (Board). The Board is responsible for the building, expansion, and maintenance of the airport within the county. The Fiscal Court's objective of having an airport is that an airport will promote industrial development within the county. The county judge/executive and the mayor jointly appoint the board members. The board members are different from the members of the Fiscal Court. The Fiscal Court's occupational tax ordinance states 2% of all monies and interest earned are to be disbursed to the Board. Therefore, management must include the Board as a component unit, and the Board's financial activity will be discretely presented with that of the Fiscal Court.

Audited financial statements for the Somerset-Pulaski County Airport Board, a discretely presented component unit, may be requested by contacting the Lake Cumberland Regional Airport, 500 W.O. Newell Drive, Somerset, Kentucky, 42501.



**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Pulaski County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Pulaski County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Pulaski County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation Fund - The purpose of this fund is to account for the financial resources to be used for the acquisition, construction, and payment of debt of the judicial center.

Fire Fund – The primary purpose of this fund is to account for fire protection expenses, purchases of buildings, and fire equipment of the county including annual allotment payments and expenses of the various county fire departments and the expenses of the Hal Rogers Fire Training Center. The primary source of revenue for this fund is fire insurance premium tax.

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

The primary government also has the following non-major funds: Local Government Economic Assistance Fund and Grant Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Fire Fund, and Grant Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of significant restricted and/or committed revenue sources and expenditures that are legally restricted or committed for specific purposes.

**Debt Service Fund:**

The Public Properties Corporation Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

**Fiduciary Funds**

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Utility Tax Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Fund - This fund accounts for funds received from inmates and held until inmates use these funds or are released from custody.

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Presentation of Component Units**

The financial statements present the following major discretely presented component units: Somerset-Pulaski County Development Foundation, Inc. and Somerset-Pulaski County Airport Board.

The Somerset-Pulaski County Development Foundation, Inc. assists in the administration of occupational tax revenues through the Pulaski County Fiscal Court, and administers an industrial revolving loan fund to carry out its purpose of industrial recruitment and development.

The Somerset-Pulaski County Airport Board accounts for activities relating to the regional airport. Operating revenues of this fund are derived mainly from fuel sales and the rental of hangar space at the airport. Operating expenses consist mainly of cost of sales, selling and administrative expenses, and depreciation on capital assets.

These component units are presented in separate columns in the combined financial statements. They are also reported on the Statement of Net Assets and the Statement of Activities in a separate total column that is labeled as "Component Units" to emphasize these organizations' separateness from the fiscal court's primary government.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets (Continued)**

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into non-spendable and spendable components, if applicable.

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

- Restricted-amounts constrained for a specific purpose by external parties, constitutional provisions, or enabling legislation.
- Committed-amounts constrained for a specific purpose by the county using its highest level of decision making authority.
- Assigned-for all governmental funds, other than general fund, any remaining positive amounts not classified as non-spendable, restricted, or committed. For the general fund, amounts constrained by intent to be used for a specified purpose by the County or the delegated county committee or official given authority to assign amounts.
- Unassigned-for the general fund, amounts not classified as non-spendable, restricted, committed or assigned. For all other governmental funds, amount expended in excess of resources that are non-spendable, restricted, committed or assigned.

For resources considered committed, the county issues an ordinance or resolution that can only be changed with another corresponding ordinance or resolution.

For resources considered assigned, the county has designated the County Judge/Executive to carry out the intent of the fiscal court.

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity (Continued)**

It is the policy of the County to spend restricted resources first, when both restricted and unrestricted resources are available to spend on the activity. Once restricted resources are exhausted, then committed, assigned and unassigned resources will be spent in that order on the activity.

Encumbrances, although not reported on the balance sheet, are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Due to the modified cash basis of accounting, encumbrances can also include invoices for goods or services received at June 30, but not yet paid and not included as an accounts payable. Significant encumbrances at year end are reported by major funds and non-major funds in the aggregate and included with the commitments and contingencies note disclosure, if applicable.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from these funds annually and revenue from the Administrative Office of the Courts is received to comply with these requirements.

Formal budgets were not adopted for the Somerset-Pulaski County Development Foundation, Inc. and the Somerset-Pulaski County Airport Board because these entities are component units of the fiscal court and the financial activity is not required to be included in the budget or financial statement of the primary government. The Fiscal Court established these entities as component units, which are operated independently of the Pulaski County Fiscal Court. These entities are included as discretely presented component units on the county's financial statements.

**J. Related Organizations**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Pulaski County Fiscal Court: Southeastern Water District, Pulaski County Western Water District, Pulaski County Public Library Special District, Pulaski County Extension District Board, and Pulaski County Solid Waste Board.

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 2. Deposits**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met for the County; however, these requirements were not met for the discretely presented component units, as they did not have a written agreement with the bank.

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240 (4). As of August 31, 2010, the County's deposits were exposed to custodial risk as follows:

- Uninsured and Uncollateralized \$195,331

As of June 30, 2011, the Somerset-Pulaski County Development Foundations, Inc.'s deposits were exposed to custodial risk as follows:

- Uninsured and Uncollateralized \$79,747

As of June 2, 2011, the Somerset-Pulaski County Airport Board's deposits were exposed to custodial risk as follows:

- Uninsured and Uncollateralized \$85,312

**Note 3. Notes Receivable**

**Somerset-Pulaski County Development Foundation, Inc.**

Notes receivable at June 30, 2011 of the Somerset-Pulaski County Development Foundation, Inc. is made up of the following notes due from industries at varying rates:

Company	Principal Amount Receivable June 30, 2011
Hendrickson USA, LLC	\$ 360,000
Valley Oak Tenants Association	78,500
Modern Distributors	100,000
Less: Allowance for Uncollectibles	(15,000)
Total Notes Receivable	<u>\$ 523,500</u>

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 3. Notes Receivable (Continued)**

1. The note from Hendrickson USA, LLC is a loan for a portion of the purchase price of their building. The note will be reclassified as a grant as the company creates a minimum of 120 jobs on or before December 31, 2010 and maintains those jobs for ten years using a formula agreed to by the Foundation and Hendrickson. If certain conditions are not met during the period of this note, interest at 5% and regular payments may become due. The note may be called for no employment or failure to make timely payments of any amounts due.
2. The note from Valley Oak Tenants Association is a short-term loan to assist the Association in various projects related to Valley Oak Property.
3. The note from Modern Distributors, Inc. is a loan for expansion of their operations. It will be reclassified as a grant as the company creates 20 additional jobs on or before April 21, 2016 using a formula agreed to by the company and the Foundation. If certain conditions are not met during the period of this note, interest at New York prime rate and payments may become due or the note may be called for no new employment.

**Note 4. Capital Assets**

Capital asset activity for the year ended June 30, 2011 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Ending Balance
<b>Primary Government:</b>			
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 3,812,407	\$ 130,000	\$ 3,942,407
Construction In Progress	15,533,819	12,988	12,988
Total Capital Assets Not Being Depreciated	19,346,226	142,988	3,955,395
Capital Assets, Being Depreciated:			
Buildings	14,154,759	19,915,464	34,070,223
Other Equipment	3,635,831	363,868	3,999,699
Vehicles and Equipment	14,662,815	777,545	15,341,170
Infrastructure	179,102,062	1,511,018	180,613,080
Total Capital Assets Being Depreciated	211,555,467	22,567,895	234,024,172
Less Accumulated Depreciation For:			
Buildings	(5,790,935)	(626,761)	(6,417,696)
Other Equipment	(1,975,851)	(257,518)	(2,233,369)
Vehicles and Equipment	(5,362,732)	(631,080)	72,647
Infrastructure	(135,177,005)	(918,268)	(136,095,273)
Total Accumulated Depreciation	(148,306,523)	(2,433,627)	72,647
Total Capital Assets, Being Depreciated, Net	63,248,944	20,134,268	(26,543)
Governmental Activities Capital Assets, Net	\$ 82,595,170	\$ 20,277,256	\$ (15,560,362)
			\$ 87,312,064



**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 4. Capital Assets (Continued)**

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 141,292	\$	\$	\$ 141,292
Total Capital Assets Being Depreciated	141,292			141,292
Less Accumulated Depreciation For:				
Vehicles and Equipment	(82,575)	(5,549)		(88,124)
Total Accumulated Depreciation	(82,575)	(5,549)		(88,124)
Total Capital Assets, Being Depreciated, Net	58,717	(5,549)		53,168
Business-Type Activities Capital Assets, Net	\$ 58,717	\$ (5,549)	\$ 0	\$ 53,168

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 640,979
Protection to Persons and Property	736,381
General Health and Sanitation	47,019
Recreation and Culture	3,047
Roads, Including Depreciation of General Infrastructure Assets	<u>1,006,201</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 2,433,627</u>
<u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 5,549</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 5,549</u>

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 4. Capital Assets (Continued)**

Capital asset activity for the primary government's discretely presented component units for the year ended June 30, 2011 was as follows:

	Discretely Presented Component Unit			
	Somerset-Pulaski County Development Foundation, Inc.			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 1,746,356	\$ 9,813	\$	\$ 1,756,169
Total Capital Assets Not Being Depreciated	1,746,356	9,813		1,756,169
Capital Assets, Being Depreciated:				
Leasehold Improvements	3,493			3,493
Buildings	7,915,974	1,805,452		9,721,426
Equipment	137,675	5,750		143,425
Total Capital Assets Being Depreciated	8,057,142	1,811,202		9,868,344
Less Accumulated Depreciation	(427,822)	(198,316)		(626,138)
Total Accumulated Depreciation	(427,822)	(198,316)		(626,138)
Total Capital Assets, Being Depreciated, Net	7,629,320	1,612,886		9,242,206
Capital Assets, Net	\$ 9,375,676	\$ 1,622,699	\$ 0	\$ 10,998,375

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 4. Capital Assets (Continued)**

	Discretely Presented Component Unit Somerset-Pulaski County Airport Board			Ending Balance
	Beginning Balance	Increases	Decreases	
Capital Assets Not Being Depreciated:				
Land	\$ 3,367,808			\$ 3,367,808
Construction In Progress	2,626,829	21,478	(2,626,829)	21,478
Total Capital Assets Not Being Depreciated	5,994,637	21,478	(2,626,829)	3,389,286
Capital Assets, Being Depreciated:				
Buildings	4,340,942			4,340,942
Other Equipment	522,348			522,348
Vehicles	266,847			266,847
Infrastructure	6,773,109	2,681,231		9,454,340
Total Capital Assets Being Depreciated	11,903,246	2,681,231		14,584,477
Less Accumulated Depreciation For:				
Buildings	(524,261)	(89,044)		(613,305)
Other Equipment	(175,034)	(19,430)		(194,464)
Vehicles	(110,916)	(29,740)		(140,656)
Infrastructure	(1,661,236)	(295,434)		(1,956,670)
Total Accumulated Depreciation	(2,471,447)	(433,648)		(2,905,095)
Total Capital Assets, Being Depreciated, Net	9,431,799	2,247,583		11,679,382
Government Activities Capital Assets, Net	<u>\$ 15,426,436</u>	<u>\$ 2,269,061</u>	<u>\$ (2,626,829)</u>	<u>\$ 15,068,668</u>

Depreciation expense was charged to functions of the discretely presented component units as follows:

Somerset-Pulaski County Development Foundation, Inc.	<u>\$ 198,316</u>
Total Depreciation Expense - Component Unit	<u>\$ 198,316</u>
Somerset-Pulaski County Airport Board	<u>\$ 433,648</u>
Total Depreciation Expense - Component Unit	<u>\$ 433,648</u>

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 4. Capital Assets (Continued)**

Capital asset activity for the Somerset-Pulaski County Development Foundation, Inc., a discretely presented component unit, for the year ended June 30, 2011 for property held for sale or lease was as follows:

	Discretely Presented Component Unit Somerset-Pulaski County Development Foundation, Inc.			
	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Property Held for Sale or Lease</u></b>				
Capital Assets Not Being Depreciated:				
Buildings and Land	\$ 3,312,824	\$ 420,782	\$	\$ 3,733,606
Total Capital Assets Not Being Depreciated	3,312,824	420,782		3,733,606
Capital Assets, Property Held for Sale or Lease	<u>\$ 3,312,824</u>	<u>\$ 420,782</u>	<u>\$</u>	<u>\$ 3,733,606</u>

**Note 5. Long-term Debt**

**A. Fire Project**

On November 29, 2000, the Pulaski County Fiscal Court entered into an agreement with Kentucky Association of Counties Leasing Trust Program for the purchase of fire equipment, land, and the construction of a three bay fire station. The principal was \$1,100,000 at 4.18% interest rate for a period of 10 years, interest and principal paid monthly. The principal outstanding as of June 30, 2011, was \$0.

**B. CAD 911 System**

On July 13, 2005, the Pulaski County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of an upgraded dispatch system for the 911 center. The principal was \$130,000, at 3.75 percent interest for a period of 59 months, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2011, was \$0.

**C. Road Repairs**

On July 25, 2007, the Pulaski County Fiscal Court entered into an agreement with Kentucky Association of Counties Leasing Trust Program for road improvements. The principal was \$1,500,000 at 3.98 percent interest for a period of 5 years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2011, was \$0.

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**D. Road Improvements**

On January 13, 2004, the Pulaski County Fiscal Court entered into an agreement with Kentucky Association of Counties Leasing Trust Program for road improvements. The principal was \$4,500,000 at 3.380 percent interest for a period of 10 years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2011, was \$1,507,859. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2012	\$ 486,248	\$ 52,076
2013	502,440	31,843
2014	519,171	8,679
	<u>\$ 1,507,859</u>	<u>\$ 92,598</u>

**E. Road Improvements**

On March 25, 2004, the Pulaski County Fiscal Court entered into an agreement with Kentucky Association of Counties Leasing Trust Program for road improvements. The principal was \$500,000 at 3.15 percent interest for a period of 10 years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2011, was \$166,539. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2012	\$ 53,806	\$ 6,140
2013	55,495	4,066
2014	57,238	1,658
	<u>\$ 166,539</u>	<u>\$ 11,864</u>

**F. Road Equipment**

On January 4, 2008, the Pulaski County Fiscal Court entered into an agreement with Kentucky Association of Counties Leasing Trust Program for the purchase of road equipment. The principal was \$185,000 at 3.75 percent interest for a period of 4 years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2011, was \$29,035. Future principal and interest requirements are:

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**F. Road Equipment (Continued)**

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2012	\$ 29,035	\$ 388
	<u>\$ 29,035</u>	<u>\$ 388</u>

**G. 2008 First Mortgage Revenue Bonds**

In December 2008, the Pulaski County Kentucky, Public Properties Corporation issued \$14,205,000 First Mortgage Revenue Bonds, Series 2008 for the construction of a new Judicial Center facility for lease to the Administrative Office of the Courts. Semiannual interest payments at a variable rate from 3.5% to 6.0% are due on December 1 and June 1 of each year. Principal is due annually on December. The bonds mature in 2028. The principal outstanding as of June 30, 2011, was \$13,700,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2012	\$ 525,000	\$ 679,331
2013	540,000	660,694
2014	560,000	640,744
2015	580,000	619,369
2016	610,000	596,294
2017-2021	3,370,000	2,554,344
2022-2026	4,290,000	1,586,397
2027-2029	<u>3,225,000</u>	<u>298,050</u>
	<u>\$ 13,700,000</u>	<u>\$ 7,635,223</u>

**H. 2009 First Mortgage Revenue Bonds**

In January 2009, the Pulaski County Kentucky, Public Properties Corporation issued \$9,500,000 First Mortgage Revenue Bonds, Series 2010 for the construction of a new Judicial Center facility for lease to the Administrative Office of the Courts. Semiannual interest payments at a variable rate from 3.5% to 4.875% are due on December 1 and June 1 of each year. Principal is due annually on December. The bonds mature in 2028. The principal outstanding as of June 30, 2011, was \$9,150,000. Future principal and interest requirements are:

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**H. 2009 First Mortgage Revenue Bonds**

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2012	\$ 360,000	\$ 380,001
2013	370,000	369,051
2014	380,000	356,851
2015	395,000	343,289
2016	410,000	329,201
2017-2021	2,310,000	1,385,311
2022-2026	2,860,000	835,823
2027-2029	2,065,000	152,986
	<u>\$ 9,150,000</u>	<u>\$ 4,152,513</u>

**I. Somerset-Pulaski County Development Foundation, Inc. Notes Payable**

Notes payable at June 30, 2011 consist of the following:

The Foundation has a 0% loan payable to the South Kentucky Rural Electric Cooperative Corporation for \$360,000. This loan is secured by a mortgage on a building. The loan is payable in 120 installments of \$3,000 through March 2017. The balance on this loan at June 30, 2011 was \$204,000.

The Foundation has a 0% loan payable to the South Kentucky Rural Electric Cooperative Corporation for \$250,000. This loan is secured by a mortgage on a building. This loan is payable in 120 installments of \$2,083 through March 2017. The balance as of June 30, 2011 was \$139,866.

The Foundation has a 0% loan payable to the South Kentucky Rural Electric Cooperative Corporation for \$300,000. This loan is secured by a mortgage on a building. This loan is payable in 108 installments of \$2,778 through November 2017. The balance as of June 30, 2011 was \$213,888.

The Foundation has a 0% loan payable to the South Kentucky Rural Electric Cooperative Corporation for \$179,000. This loan is secured by a mortgage on a building. This loan is payable in 108 installments of \$1,657 through November 2017. The balance as of June 30, 2011 was \$127,620.

The Foundation has a 0% loan payable to the South Kentucky Rural Electric Cooperative Corporation for \$740,000. This loan is secured by a mortgage on a building. This loan is payable in 120 installments of \$6,167 through July 2019. The balance as of June 30, 2011 was \$524,167.

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**I. Somerset-Pulaski County Development Foundation, Inc. Notes Payable**

Maturities on these loans are as follows:

Fiscal Year Ended June 30	Governmental Activities
	Principal
2012	\$ 188,646
2013	188,646
2014	188,646
2015	188,646
2016	188,646
2017-2019	266,311
	<u>\$ 1,209,541</u>

**J. Somerset-Pulaski County Airport Board Notes Payable**

**John Deere Mower**

On July 17, 2006, the Somerset-Pulaski County Airport Board entered into a lease agreement with John Deere Credit Services for the purchase of a mower. The original loan amount was for \$10,552 with an interest rate of .25% per year with principal and interest to be paid monthly. As of June 30, 2011, the total principal balance outstanding was \$0.

**Tractor**

On January 8, 2008, the Somerset-Pulaski County Airport Board entered into a loan agreement with Community Trust Bank for the purchase of a tractor. The original loan amount was for \$17,776 with an annual interest rate of 5.33%. Principal and interest payments are due monthly. As of June 30, 2011, the total principal balance outstanding was \$0.

**Airport Development Loan**

On October 30, 2003, the Somerset-Pulaski County Airport Board entered into a loan agreement with the Kentucky Transportation Cabinet Division of Aeronautics, for airport development use. The Airport Board used the proceeds from the loan to help construct a corporate hangar. The original loan amount was for \$65,000 with an interest rate of 2.00% per year. Principal and interest are to be repaid in ten equal, consecutive annual installments of \$6,500, beginning November 24, 2004, and continuing annually thereafter on the 24<sup>th</sup> day of November until the maturity date of November 24, 2013. The total principal balance was \$19,500 as of June 30, 2011. Future principal and interest requirements are:



**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**J. Somerset-Pulaski County Airport Board Notes Payable**

Fiscal Year Ended June 30	Principal	Interest
2012	\$ 6,500	\$ 390
2013	6,500	260
2014	6,500	130
Totals	<u>\$ 19,500</u>	<u>\$ 780</u>

**Fuel Tanker Truck**

On March 4, 2011, the Somerset-Pulaski County Airport Board entered into a loan agreement with the Branch Bank and Trust Company to help purchase a fuel tanker truck. The original loan amount was for \$35,000 with an interest rate of 2.92% per year. The agreement requires quarterly payments of principal and interest beginning June 4, 2011. The total principal balance was \$32,199 as of June 30, 2011. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2012	\$ 11,412	\$ 816
2013	11,749	479
2014	9,038	132
Totals	<u>\$ 32,199</u>	<u>\$ 1,427</u>

**K. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<b><u>Governmental Activities:</u></b>					
Revenue Bonds	\$ 23,705,000	\$	\$ 855,000	\$22,850,000	\$ 885,000
Financing Obligations	2,685,406		981,973	1,703,433	569,088
Governmental Activities Long-term Liabilities	<u>\$ 26,390,406</u>	<u>\$ 0</u>	<u>\$ 1,836,973</u>	<u>\$24,553,433</u>	<u>\$ 1,454,088</u>

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**K. Changes in Long-term Debt (Continued)**

**Discretely Presented Component Units**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Foundation:</b>					
<u>Governmental Activities:</u>					
Notes Payable	\$ 1,398,187		\$ 188,646	\$ 1,209,541	\$ 188,646
Governmental Activities Long-term Liabilities	<u>\$ 1,398,187</u>	<u>\$ 0</u>	<u>\$ 188,646</u>	<u>\$ 1,209,541</u>	<u>\$ 188,646</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Airport Board:</b>					
Financing Obligations	\$ 38,270	\$ 35,000	\$ 21,571	\$ 51,699	\$ 17,912
Long-term Liabilities	<u>\$ 38,270</u>	<u>\$ 35,000</u>	<u>\$ 21,571</u>	<u>\$ 51,699</u>	<u>\$ 17,912</u>

**Note 6. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$92,048 in interest on financing obligations and \$1,088,008 in interest on bonds and notes.

**Note 7. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 32.97 percent.

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 7. Employee Retirement System (Continued)**

The county's contribution for FY 2009 was \$1,234,690, FY 2010 was \$1,387,660, and FY 2011 was \$1,552,571.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**PULASKI COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**  
**(Continued)**

**Note 8. Deferred Compensation**

On February 24, 2000, the Pulaski County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 9. Insurance**

For the fiscal year ended June 30, 2011, Pulaski County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 10. Related Party Transaction**

During fiscal year ended June 30, 2011, the Fiscal Court paid \$9,275 to Lake Cumberland Funeral Home for indigent burials. The County Coroner owned part of the Lake Cumberland Funeral Home. Because of the nature of the relationship, the transactions are considered related party transactions.

**Note 11. Prior Period Adjustments**

The prior year net assets of \$64,763,447 for the primary government has been restated by \$978,226 due to changes in prior year ending cash balances of \$1,722 , long-term debt principal balances of \$2, and capital assets of \$979,946 .

The prior year net assets of \$158,133 for the jail canteen has been restated by \$21,778 due to the inclusion of the jail inmate account in the jail canteen fund account balance.

**Note 12. Change in Accounting Principle**

The county implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions which has altered the classifications of fund balance on the Balance Sheet-Governmental Funds. Additionally, certain funds previously reported as special revenue funds that no longer meet the definition as stated in GASB Statement 54 have now been included in the General Fund. See Note 1.D. The implementation did not cause a restatement to total fund balance or beginning net assets.

**PULASKI COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2011**



**PULASKI COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2011**

	<b>Local Government Economic Assistance Fund</b>	<b>Grant Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 60,958	\$ 108,420	\$ 169,378
Total Assets	<u>60,958</u>	<u>108,420</u>	<u>169,378</u>
<b>FUND BALANCES</b>			
<b>Restricted For:</b>			
Capital Projects		108,420	108,420
<b>Assigned To:</b>			
General Government	948		948
Protection to Persons and Property	3,422		3,422
General Health and Sanitation	526		526
Social Services	6,212		6,212
Recreation and Culture	16,455		16,455
Roads	<u>33,395</u>		<u>33,395</u>
Total Fund Balances	<u>\$ 60,958</u>	<u>\$ 108,420</u>	<u>\$ 169,378</u>

The accompanying notes are an integral part of the financial statements.

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**PULASKI COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2011**



**PULASKI COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2011**

	<b>Local Government Economic Assistance Fund</b>	<b>Grant Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Intergovernmental	\$ 520,308	\$ 744,443	\$ 1,264,751
Interest	1,580		1,580
Total Revenues	<u>521,888</u>	<u>744,443</u>	<u>1,266,331</u>
<b>EXPENDITURES</b>			
General Government	9,000		9,000
Protection to Persons and Property	32,500		32,500
General Health and Sanitation	5,000		5,000
Social Services	68,796		68,796
Recreation and Culture	159,640		159,640
Roads	197,729		197,729
Capital Projects		673,041	673,041
Total Expenditures	<u>472,665</u>	<u>673,041</u>	<u>1,145,706</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>49,223</u>	<u>71,402</u>	<u>120,625</u>
<b>Other Financing Sources (Uses)</b>			
Transfers from Other Funds	85,000	24,000	109,000
Transfers To Other Funds	<u>(85,000)</u>	<u>(15,664)</u>	<u>(100,664)</u>
Total Other Financing Sources (Uses)		<u>8,336</u>	<u>8,336</u>
Net Change in Fund Balances	49,223	79,738	128,961
Fund Balances - Beginning	11,735	28,682	40,417
Fund Balances - Ending	<u>\$ 60,958</u>	<u>\$ 108,420</u>	<u>\$ 169,378</u>

The accompanying notes are an integral part of the financial statements.

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**PULASKI COUNTY**  
**STATEMENT OF NET ASSETS – COMPONENT UNITS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2011**



**PULASKI COUNTY**  
**STATEMENT OF NET ASSETS – COMPONENT UNITS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2011**

	<b>Somerset-Pulaski County Development Foundation, Inc.</b>	<b>Somerset-Pulaski County Airport Board</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 351,362	\$ 333,566	\$ 684,928
Accounts Receivable	43,665	33,221	76,886
Notes Receivable, Net	523,500		523,500
Inventory - Fuel		25,075	25,075
Inventory		1,543	1,543
Total Current Assets	<u>918,527</u>	<u>393,405</u>	<u>1,311,932</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Construction In Progress		21,478	21,478
Land and Land Improvements	1,756,169	3,367,808	5,123,977
Buildings	9,098,781	3,727,637	12,826,418
Other Equipment	143,425	327,884	471,309
Vehicles and Equipment		126,191	126,191
Infrastructure		7,497,670	7,497,670
Property Held For Sale or Lease	3,733,606		3,733,606
Total Noncurrent Assets	<u>14,731,981</u>	<u>15,068,668</u>	<u>29,800,649</u>
Total Assets	<u>15,650,508</u>	<u>15,462,073</u>	<u>31,112,581</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Note Payable	188,646		188,646
Accrued Expenses	38,000		38,000
Financing Obligations		17,912	17,912
Sales Tax Payable		2,048	2,048
Payroll Liabilities		1,865	1,865
Accrued Payroll		3,400	3,400
Accounts Payable	75,344	11,725	87,069
Deferred Revenue		21,195	21,195
Total Current Liabilities	<u>301,990</u>	<u>58,145</u>	<u>360,135</u>
Noncurrent Liabilities:			
Note Payable	1,020,895		1,020,895
Financing Obligations		33,787	33,787
Total Noncurrent Liabilities	<u>1,020,895</u>	<u>33,787</u>	<u>1,054,682</u>
Total Liabilities	<u>1,322,885</u>	<u>91,932</u>	<u>1,414,817</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt		15,016,969	15,016,969
Restricted For:			
Capital Projects		45,562	45,562
Unrestricted	14,327,623	307,610	14,635,233
Total Net Assets	<u>\$ 14,327,623</u>	<u>\$ 15,370,141</u>	<u>\$ 29,697,764</u>

The accompanying notes are an integral part of the financial statements.

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**PULASKI COUNTY**  
**STATEMENT OF ACTIVITIES – COMPONENT UNITS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2011**



**PULASKI COUNTY**  
**STATEMENT OF ACTIVITIES – COMPONENT UNITS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2011**

Functions/Programs Reporting Entity	Expenses	Program Revenues Received			Net (Expenses) Revenues and Changes In Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Somerset-Pulaski County					
Development Foundation, Inc.	\$ 490,057	\$ 280	\$	\$ 833,453	\$ 343,676
Somerset-Pulaski County					
Airport Board	939,160	468,320	163,762	73,810	(233,268)
Total Component Units	<u>\$ 1,429,217</u>	<u>\$ 468,600</u>	<u>\$ 163,762</u>	<u>\$ 907,263</u>	<u>110,408</u>
<b>General Revenues:</b>					
Miscellaneous Revenues					26,035
Rentals					544,694
Interest					<u>7,212</u>
Total General Revenues and Transfers					<u>577,941</u>
Change in Net Assets					<u>688,349</u>
Net Assets					
- Beginning (Restated)					<u>29,009,415</u>
Net Assets - Ending					<u><u>\$ 29,697,764</u></u>

The accompanying notes are an integral part of the financial statements.

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**PULASKI COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**

**For The Year Ended June 30, 2011**



**PULASKI COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**

**For The Year Ended June 30, 2011**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 6,810,847	\$ 6,810,847	\$ 6,399,305	\$ (411,542)
In Lieu Tax Payments	197,000	412,000	359,111	(52,889)
Excess Fees	444,024	686,024	712,339	26,315
Licenses and Permits	198,810	198,810	197,416	(1,394)
Intergovernmental Revenue	495,530	495,530	621,779	126,249
Charges for Services	107,000	107,000	96,945	(10,055)
Miscellaneous	164,500	164,500	161,296	(3,204)
Interest	10,000	10,000	10,389	389
Total Revenues	8,427,711	8,884,711	8,558,580	(326,131)
<b>EXPENDITURES</b>				
General Government	3,768,680	4,276,413	4,112,226	164,187
Protection to Persons and Property	1,053,412	1,130,427	1,118,788	11,639
General Health and Sanitation	540,047	697,263	672,863	24,400
Social Services		3,525	3,515	10
Recreation and Culture	150,073	207,177	192,131	15,046
Airports		170,000	167,322	2,678
Capital Projects	2,020,000	1,097,413	209,844	887,569
Administration	2,995,499	3,702,493	3,021,470	681,023
Total Expenditures	10,527,711	11,284,711	9,498,159	1,786,552
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,100,000)	(2,400,000)	(939,579)	1,460,421
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds	2,000,000	2,000,000		(2,000,000)
Transfers From Other Funds			1,591,256	1,591,256
Transfers To Other Funds			(831,021)	(831,021)
Total Other Financing Sources (Uses)	2,000,000	2,000,000	760,235	(1,239,765)
Net Changes in Fund Balance	(100,000)	(400,000)	(179,344)	220,656
Fund Balance - Beginning	100,000	400,000	402,889	2,889
Fund Balance - Ending	\$ 0	\$ 0	\$ 223,545	\$ 223,545

**PULASKI COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**  
**For The Year Ended June 30, 2011**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,570,851	\$ 1,570,851	\$ 1,607,024	\$ 36,173
In Lieu Tax Payments	100,000	100,000	78,326	(21,674)
Intergovernmental Revenue	2,872,105	2,872,105	2,857,674	(14,431)
Miscellaneous	65,000	65,000	184,146	119,146
Interest	12,000	12,000	14,264	2,264
Total Revenues	4,619,956	4,619,956	4,741,434	121,478
<b>EXPENDITURES</b>				
Roads	3,409,719	3,770,450	3,699,848	70,602
Debt Service	991,851	991,852	991,851	1
Capital Projects	200,000	234,214	235,875	(1,661)
Administration	68,386	43,440	39,163	4,277
Total Expenditures	4,669,956	5,039,956	4,966,737	73,219
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(50,000)	(420,000)	(225,303)	194,697
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			100,000	100,000
Transfers To Other Funds			(100,000)	(100,000)
Total Other Financing Sources (Uses)				
Net Changes in Fund Balance	(50,000)	(420,000)	(225,303)	194,697
Fund Balance - Beginning	50,000	420,000	420,129	129
Fund Balance - Ending	\$ 0	\$ 0	\$ 194,826	\$ 194,826



**PULASKI COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**  
**For The Year Ended June 30, 2011**  
**(Continued)**

<b>JAIL FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 449,608	\$ 449,608	\$ 460,136	\$ 10,528
Intergovernmental Revenue	2,145,200	2,145,200	1,830,446	(314,754)
Charges for Services	95,000	95,000	90,281	(4,719)
Miscellaneous	245,000	245,000	221,697	(23,303)
Interest	4,000	4,000	3,341	(659)
Total Revenues	2,938,808	2,938,808	2,605,901	(332,907)
<b>EXPENDITURES</b>				
Protection to Persons and Property	2,335,792	2,449,173	2,269,784	179,389
Administration	803,016	844,635	724,150	120,485
Total Expenditures	3,138,808	3,293,808	2,993,934	299,874
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(200,000)	(355,000)	(388,033)	(33,033)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			172,021	172,021
Transfers To Other Funds			(100,000)	(100,000)
Total Other Financing Sources (Uses)			72,021	72,021
Net Changes in Fund Balance	(200,000)	(355,000)	(316,012)	38,988
Fund Balance - Beginning	200,000	355,000	355,738	738
Fund Balance - Ending	\$ 0	\$ 0	\$ 39,726	\$ 39,726

**PULASKI COUNTY**  
**BUDGETARY COMPARISON INFORMATION**  
**Other Information - Modified Cash Basis**  
**For The Year Ended June 30, 2011**  
**(Continued)**

	<b>Fire Fund</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 2,600,000	\$ 2,600,000	\$ 2,755,206	\$ 155,206
Intergovernmental Revenue	18,330	18,330	18,262	(68)
Charges for Services	30,000	30,000	49,077	19,077
Miscellaneous	4,500	4,500	22,631	18,131
Interest	10,000	10,000	7,367	(2,633)
Total Revenues	2,662,830	2,662,830	2,852,543	189,713
<b>EXPENDITURES</b>				
Protection to Persons and Property	1,417,875	1,452,910	1,392,658	(60,252)
Debt Service	58,005	58,007	57,065	(942)
Capital Projects	680,000	845,051	695,089	(149,962)
Administration	281,950	81,862	68,030	13,832
Total Expenditures	2,437,830	2,437,830	2,212,842	13,832
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	225,000	225,000	639,701	203,545
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			4,983	4,983
Transfers To Other Funds	(625,000)	(625,000)	(688,000)	(63,000)
Total Other Financing Sources (Uses)	(625,000)	(625,000)	(683,017)	(58,017)
Net Changes in Fund Balances	(400,000)	(400,000)	(43,316)	356,684
Fund Balances - Beginning	400,000	400,000	97,848	(302,152)
Fund Balances - Ending	\$ 0	\$ 0	\$ 54,532	\$ 54,532

**PULASKI COUNTY**  
**NOTES TO OTHER INFORMATION**

**June 30, 2011**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Reconciliation of the General Fund**

Total Revenues-Budgetary Basis	\$ 8,558,580
To adjust for Industrial Development Fund Revenues	1,255,908
To adjust for 911 Fund Revenues	1,327,921
To adjust for Economic Development Fund Revenues	<u>2,084</u>
Total Revenues-Modified Cash Basis	<u><u>\$ 11,144,493</u></u>
 Total Expenditures-Budgetary Basis	 \$ 9,498,159
To adjust for Industrial Development Fund Expenditures	1,561,253
To adjust for 911 Fund Expenditures	1,344,035
To adjust for Economic Development Fund Expenditures	<u>250,000</u>
Total Expenditures-Modified Cash Basis	<u><u>\$ 12,653,447</u></u>
 Total Fund Balance-Beginning-Budgetary Basis	 \$ 402,889
To adjust for Industrial Development Fund Beginning Balance	684,577
To adjust for 911 Fund Beginning Balance	466,231
To adjust for Economic Development Fund Beginning Balance	<u>304,728</u>
Total Fund Balance-Beginning-Modified Cash Basis	<u><u>\$ 1,858,425</u></u>
 Total Fund Balance-Ending-Budgetary Basis	 \$ 223,545
To adjust for Industrial Development Fund Ending Balance	379,232
To adjust for 911 Fund Ending Balance	450,117
To adjust for Economic Development Fund Ending Balance	<u>56,812</u>
Total Fund Balance-Ending-Modified Cash Basis	<u><u>\$ 1,109,706</u></u>

**PULASKI COUNTY**  
**NOTES TO OTHER INFORMATION**  
**June 30, 2011**  
**(Continued)**

**Reconciliation of the Fire Fund**

Total Other Financing Sources and Uses-Budgetary Basis	\$ (683,017)
To adjust for Transfer from Hazardous Material Fund	<u>(4,983)</u>
Total Other Financing Sources and Uses-Modified Cash Basis	<u><u>\$ (688,000)</u></u>
 Total Fund Balance-Beginning-Budgetary Basis	 \$ 97,848
To adjust for Hazardous Material Fund Beginning Balance	<u>4,983</u>
Total Fund Balance-Beginning-Modified Cash Basis	<u><u>\$ 102,831</u></u>

The accompanying notes are an integral part of the financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Barty Bullock, Pulaski County Judge/Executive  
Members of the Pulaski County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pulaski County, Kentucky, as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 7, 2012, wherein we issued a qualified opinion on the aggregate discretely presented component units. Pulaski County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

Management of the Pulaski County Fiscal Court is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Pulaski County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pulaski County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pulaski County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendation as item, 2011-01, 2011-02, and 2011-03 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2011-04 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Pulaski County's financial statements as of and for the year ended June 30, 2011, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendation as items 2011-05 and 2011-06.

The Pulaski County Judge/Executive's and the County Jailer's responses to the findings identified in our audit are included in the schedule of findings and questioned costs. We did not audit the County Judge/Executive and County Jailer's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and the Department for Local Government and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

June 7, 2012



**PULASKI COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2011**



**PULASKI COUNTY  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2011**

**INTERNAL CONTROL - MATERIAL WEAKNESSES**

**2011-01    The Fiscal Court Lacks Adequate Segregation Of Duties Over Receipts And Bank Reconciliations**

The County Treasurer prepares and deposits the receipts, posts transactions into the accounting system, prepares reports for submission to the Department for Local Government, and performs the bank reconciliations for all county funds.

Lack of segregation of duties could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government, which could occur but go undetected. In addition, too much control by one individual without oversight can lead to irregularities that go undetected.

We recommend that the County divide the responsibilities for receipts and bank reconciliations among the Treasurer, the Finance Officer, and other employees of the County in order to achieve an appropriate level of segregation of duties.

*County Judge/Executive Barty Bullock's Response: We disagree with some of this comment. The Treasurer is directed by KRS 68.020, sections 1 and 4 to:*

- A. The county treasurer shall receive and receipt for all money due the county from its collecting officers or from any other person whose duty it is to pay money into the county treasury.*
- B. He/She shall keep an accurate detailed account of all money received and disbursed by him/her for the county, and shall keep books of accounts of the financial transactions of the county in a manner required by the uniform system of accounting prescribed by the state local finance officer.*

*If the County Treasurer gives up too much of the day to day recording and receipting of the money collected and disbursed, it is entirely possible to lose an accurate oversight of the flow of the county's overall financial picture. Receiving, recording, and balancing of the county's cash flow is the most important of the Treasurer's duties. All bank reconciliations and records of cash received and disbursed is presented to the Fiscal Court each month for their inspection and approval.*

*We agree that some of the agencies receiving and accounting for money on behalf of the county should have better controls in place. We have looked at those agencies and will make the necessary changes to better control the opportunity for fraud.*

*Auditors' reply: As stated in the comment above, too much control by one individual can result in misappropriation of assets and/or inaccurate financial reporting. If segregation of duties is not possible, the county should implement compensating controls or strong oversight over receipts and bank reconciliations.*

**PULASKI COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2011-02 Jail Commissary Internal Controls Are Not Adequately Segregated

Our review of internal controls for jail commissary operations determined there is a lack of adequate segregation of duties because the former bookkeeper was primarily responsible for preparing deposits, preparing daily checkout sheets, preparing disbursement checks, posting to the receipts and disbursement ledgers, generating monthly reports, preparing monthly sales tax returns, preparing the monthly financial statements, and reconciling the bank account. Although other employees assisted the bookkeeper, there was no oversight or independent review of the bookkeeper's responsibilities.

A proper segregation of duties over bookkeeping duties, such as preparation of daily deposits, preparation of daily checkout sheets, check writing and signing, posting to the receipt and disbursement ledgers, generating monthly reports, preparing monthly sales tax returns, preparing the monthly financial statements, and reconciling the bank account is essential for preventing misappropriation of assets and/or inaccurate financial reporting. In addition, effective internal controls protect employees in the normal course of performing their daily responsibilities.

Budget restrictions may limit the number of employees the Jailer can hire. As a result, it may not be feasible to segregate bookkeeping duties to different individuals, or assign additional individuals to related tasks. In this situation, compensating controls should be designed and implemented to mitigate the risks associated with the internal control deficiencies described above.

We recommend the Jailer segregate related bookkeeping duties as described above. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Jailer could provide this oversight. If the Jailer chooses to implement compensating controls, the Jailer should document his oversight on the appropriate source document. The following are examples of compensating controls the Jailer could implement:

- The Jailer, or his designee, could periodically compare a daily deposit to the daily checkout sheet and receipts ledger.
- The Jailer, or his designee, could verify supporting documentation for disbursements agrees to check amounts, for disbursements such as jail fees collected, and sales tax returns.
- The Jailer, or his designee, could re-perform the bank reconciliation and compare reconciled balances to the monthly financial statements for agreement.

*County Jailer Mike Harris' Response: Deposits of all inmate monies are currently performed by 1 staff and another staff audits the deposit. Monthly bank reconciliations are performed by 1 staff and the jailer reviews. All checks require 2 signatures, 4 staff have permission to sign and compare.*

**PULASKI COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

INTERNAL CONTROL - MATERIAL WEAKNESSES (Continued)

2011-03    The Somerset-Pulaski County Airport Board Lacks Adequate Segregation Of Duties

As a result of our audit, we noted the Somerset-Pulaski County Airport Board (Airport Board) has a lack of segregation of duties over all accounting functions. The airport manager is responsible for preparing invoices, collecting receipts, preparing and depositing the receipts, and posting to the ledgers. The manager also prepares, signs, and posts all disbursements including payroll.

Because a lack of adequate segregation of duties existed for the above-mentioned accounting functions, the following occurred:

- One instance in which customer was not properly billed for hangar rental.
- Three instances in which customers were not billed for hangar rental.
- Sales tax reports were not properly prepared resulting in \$1,081 due to the Kentucky Department of Revenue.

Adequate segregation of duties would prevent the same person from having a significant role in the receiving and disbursing of funds, recording and reporting of those receipts and disbursements. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting.

To protect the Airport Board against inaccurate financial reporting, we recommend separating the duties in preparing and depositing receipts, recording transactions, and preparing checks. If segregation of duties is not possible, due to a limited number of staff, strong oversight should be provided over the person responsible for these duties. The person providing this oversight should document his or her review by initialing source documents.

*Airport Board Management's Response: The Airport cannot segregate duties due to budget constraints; however we the Somerset Pulaski County Airport Board feel that there are adequate compensating controls over all accounting functions for Fiscal Year 2012 forward.*

- a. In response to the one instance in which a customer was not properly billed for hanger rental, the difference in what was billed versus what should have been billed amounts to \$25.00. Subsequently the customer has been billed and has paid the correct amounts thus forward.*
- b. In response to the three customers that were not billed for hanger rentals, the first lessee was not billed through accounts receivable, however the customer paid the scheduled payment which reflects in a zero balance. The second and third instance, results in the lessee requesting to be changed from quarterly billing to Semi-Annual Billing, therefore rents were billed and paid leaving a zero balance at the end of Fiscal Year 2011.*
- c. In response to the Sales Tax not being properly reported, the previous Airport Manager inadvertently computed the monthly sales tax incorrectly; the adjusted sales tax has since been paid.*

*Auditor's reply:*

- a. Without adequate controls, an error could go undetected and uncorrected. Good internal controls would help ensure customers are properly billed.*
- b. Auditors requested documentation from the Airport Board to verify customers in question had paid and payments were in fact deposited. Auditors did not receive documentation to support the Airport Board's responses.*

**PULASKI COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY

2011-04    The Somerset-Pulaski County Airport Board Should Properly Account For Daily Deposits

During our test of daily receipts, we noted the Airport Board does not properly account for deposits. Customer payments are applied to the applicable invoice in the accounting system or sales receipts are used to record monies received from customers. However, there is no supporting documentation maintained for deposits to determine what payments make up the total funds deposited. Furthermore, there is no documentation maintained to show the funds received are reconciled and deposited in-tact daily and that receipts are accounted for in numerical order. Good internal controls dictate, a cash receipts journal should be maintained indicating the date money is received, a description of the revenue source, the revenue account code, the total amount and the fund(s) to which the amount is distributed. We recommend the Airport Board implement procedures to properly account for daily deposits and account for all receipts in numerical order. After applying customer payments, the accounting system utilized by the Airport allows for the entity to record bank deposits using the deposit function. A deposit detail report can provide the information you would normally see in a cash receipts journal. Furthermore, we recommend the Airport Board maintain documentation of the reconciliation of the cash drawer to the accounting system and to the daily deposit.

*Airport Board Management's Response: Cash Receipts are recorded in the general ledger on the date in which it was received, with a description of the revenue source and coded to a general ledger account. There are copies of the deposit tickets maintained and copies within the bank statements and the deposits are reconciled monthly by our CPA. The Airport Board is maintaining reconciliations of the cash drawer daily.*

*Auditor's reply: Auditors requested a detail of deposits to determine if monies collected were deposited daily and all receipts were accounted for; however, we were not provided this documentation during the course of the audit. The controls mentioned above were not implemented until after the audit period and will be evaluated and tested during the next audit.*

STATE LAWS AND REGULATIONS

2011-05    The Fiscal Court Participated In A Related Party Transaction

During fiscal year 2011, the County Coroner was partial owner of the Lake Cumberland Funeral Home in which the county paid a total of \$9,275 for indigent burials. Per the Pulaski County Code of Ethics, Part II., Standards of Conduct A, "no County government officer or employee or member of his family shall have an interest in a business organization or engage in any business, transaction, or professional activity, which is in conflict with the proper discharge of his duties in public interest..." We recommend the County Judge/Executive consult with the local Board of Ethics for further review to determine whether a violation of the local Code of Ethics has occurred.

*County Judge/Executive Barty Bullock's Response: The County Judge Executive will consult with the local Board of Ethics to determine how this situation should be handled in the future and to determine if a violation of the local Code of Ethics has occurred. He will also determine how it may be corrected if it is determined that a violation has in fact been committed.*

**PULASKI COUNTY**  
**COMMENTS AND RECOMMENDATIONS**  
**Fiscal Year Ended June 30, 2011**  
**(Continued)**

STATE LAWS AND REGULATIONS (Continued)

2011-06    The Somerset-Pulaski County Airport Board Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On June 2, 2011, \$85,312 of the Airport Board's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$250,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Airport Board should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Airport Board enter into a written agreement with the depository institution to secure the Airport Board's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Airport Board Management Response: The Airport Board is currently working with the Depository Institution to secure deposits.*

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**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**PULASKI COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2011**




CERTIFICATION OF COMPLIANCE

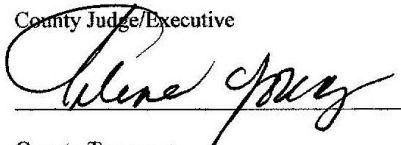
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM AND  
DEVELOPMENT PROGRAM

PULASKI COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2011

The Pulaski County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
County Judge/Executive

  
\_\_\_\_\_  
County Treasurer

